

Message Text

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SUBJ: EC COUNCIL MEETING DEFERS DECISION ON EUROPEAN DEVELOPMENT
FUND

REF: EC BRUSSELS 8850

1. SUMMARY: AS REPORTED IN THE REFTEL, THE NOVEMBER 12
EC COUNCIL MEETING ARRIVED AT NO DECISION TO EXTEND THE
EUROPEAN DEVELOPMENT FUND (EDF) BEYOND JANUARY 31. THE
COUNCIL WILL TRY TO MEET THE DEADLINE BUT MAY NOT SUCCEED.
THE MAJORITY OF THE COUNCIL FAVORED INCLUDING THE EDF WITHIN
THE COMMUNITY'S BUDGET. NO DECISION WAS TAKEN ON THE UNIT
OF ACCOUNT FOR THE EDF; THE COMMISSION PLANS TO PROPOSE
USING THE SDR AS THE NUMERAIRE ON AN INTERIM BASIS. THE
COUNCIL HAS ASKED COREPER URGENTLY TO RESUBMIT PROPOSALS.
END SUMMARY.

2. PLACING THE EDF WITHIN THE BUDGET: SIX MEMBER STATES
FAVORED INCLUDING THE EDF WITHIN THE COMMUNITY'S
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BUDGET. FRANCE WANTED TO KEEP THE FUND OUTSIDE OF

THE BUDGET, AND GERMANY AND ITALY FAVORED A SYSTEM IN WHICH THERE WOULD BE A LIMIT TO THE AMOUNT OF THEIR CONTRIBUTION. PLACING THE FUND WITHIN THE BUDGET RAISES PROBLEMS REGARDING EACH MEMBER STATE'S SHARE OF THE COST AND THE FUND'S UNIT OF ACCOUNT.

3. CONTRIBUTION SHARES: SHOULD THE EDF BE PLACED WITHIN THE BUDGET, EACH STATE'S SHARE OF THE FUND'S OVERALL COST WOULD BE BASED ON ITS PRESCRIBED RELATIVE SHARE OF THE BUDGET. FOR EXAMPLE, THE COMMISSION CALCULATES THAT IN 1977, ACCORDING TO THE ACCESSION TREATY, THE MAJOR COUNTRIES' RELATIVE SHARES WOULD BE: FRG, 26.9 PERCENT; FRANCE, 21.9 PERCENT; UK, 19.2 PERCENT, AND ITALY 15.3 PERCENT. THESE SHARES, HOWEVER, MAY NOT BE COMPATIBLE WITH THE FRG'S DESIRE TO CONTRIBUTE NO MORE THAN 2.5 BILLION DM AND THE ITALIAN WISH TO LIMIT ITS CONTRIBUTION TO THE LIRE EQUIVALENT OF \$354 MILLION OVER THE FIVE-YEAR PERIOD. FRANCE DID NOT STATE THE AMOUNT OF ITS MAXIMUM CONTRIBUTION. IT WILL BE UP TO THE COREPER TO ATTEMPT TO RESOLVE THESE DIFFERENCES.

4. UNIT OF ACCOUNT: PRIOR TO THE COUNCIL MEETING THE EC MONETARY COMMITTEE WAS ASKED TO STUDY A NEW NUMERAIRE FOR THE EDF. PRESENTLY THE EXCHANGE RATES FOR MEMBERS' CONTRIBUTIONS ARE BASED ON PARITY RATES. BECAUSE OF CURRENCY DEVALUATIONS THE RATES USED FOR SEVERAL STATES' CONTRIBUTIONS DIVERGE SIGNIFICANTLY FROM CURRENT EXCHANGE RATES, CAUSING A LOSS IN THE REAL VALUE OF SOME CONTRIBUTIONS (E.G., THE UK CONTRIBUTES NOW LESS THAN ITS MARKET EXCHANGE RATE WOULD JUSTIFY). ADOPTING A NEW UNIT OF ACCOUNT HAS BECOME A POLITICALLY CHARGED ISSUE BECAUSE IT COULD SET A PRECEDENT FOR DETERMINING A NEW UNIT OF ACCOUNT FOR THE COMMUNITY'S BUDGET, WHICH WOULD AFFECT THE UK'S EFFORT TO RENEGOTIATE ITS SHARE OF BUDGETARY CONTRIBUTIONS. IN THE MONETARY COMMITTEE, FRANCE RAISED AGAIN ITS PROPOSAL TO ESTABLISH A UNIT OF ACCOUNT BASED ON A EUROPEAN BASKET OF CURRENCIES. LIMITED OFFICIAL USE

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ITALY REPORTEDLY SUPPORTED THE FRENCH PROPOSAL. THE UK, ON THE OTHER HAND, FAVORED USING THE SDR AS THE NUMERAIRE. MOST OF THE OTHER MEMBER STATES SUPPORTED THE BRITISH VIEW. SINCE IT COULD NOT AGREE, THE MONETARY COMMITTEE PROPOSED SEVERAL POSSIBLE NUMERAIRES, BUT THE COUNCIL DID NOT REACH A DECISION ON THIS ISSUE.

5. COMMISSION'S ROLE: THE COMMISSION NOW PLANS TO
PULL TOGETHER THESE VARIOUS PROPOSALS AND MAKE ITS
OWN RECOMMENDATION. IT REPORTEDLY HAS IN MIND
PLACING THE EDF WITHIN THE BUDGET BUT NOT USING
THE CURRENT BUDGETARY UNIT OF ACCOUNT, I.E., THE
PRE-DEVALUED DOLLAR (U.S. EQUALS \$1.20635). INSTEAD
IT REPORTEDLY FAVORS USING THE SDR AS THE NUMERAIRE
UNTIL THE COMMUNITY HAS DECIDED ON A NEW NUMERAIRE
FOR THE BUDGET. THE COUNCIL (FINANCE) WILL TAKEUP
THE ISSUE OF HARMONIZING EC UNITS OF ACCOUNTS AT ITS
NOVEMBER 18 MEETING. SINCE MEMBER STATES DIFFER
SHARPLY ON THIS ISSUE, THE FINANCE MINISTERS ARE
NOT LIKELY TO REACH AGREEMENT ON EITHER HARMONIZING
THE EC UNITS OF ACCOUNT OR ADOPTING AN INTERIM UNIT
OF ACCOUNT FOR THE EDF. MYERSON

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